

MEMORANDUM OF UNDERSTANDING BETWEEN THE
GOVERNMENT OF THE UNITED STATES AND THE
GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND
NORTHERN IRELAND
RELATING TO THE PRINCIPLES GOVERNING CO-OPERATION
IN RESEARCH AND DEVELOPMENT, PRODUCTION, PROCUREMENT
AND LOGISTIC SUPPORT OF DEFENSE EQUIPMENT
(SHORT TITLE: US/UK DEFENSE EQUIPMENT CO-OPERATION MEMORANDUM)

INTRODUCTION

The Government of the United States of America (USG) and the Government of the United Kingdom of Great Britain and Northern Ireland (HMG), hereinafter referred to as the Governments,:

noting that the Governments established and have maintained understandings relating to reciprocal defense procurement since 1975; and

are seeking to achieve greater co-operation in research, development, production, procurement, and logistic support of defense equipment in order to:

- make the most cost-effective and rational use of their respective industrial, economic and technological resources to the extent permitted by national policies; and
- promote the widest possible use of standard or interoperable equipment; and
- develop and maintain an advanced technological capability for the North Atlantic Alliance, and particularly with respect to the signatories to this Memorandum of Understanding (MOU).

Then, seeking to further the above aims, the Governments have sought to reach certain understandings and this Memorandum sets out the understandings in regard to the guiding principles governing mutual co-operation in defense equipment production and purchasing.

The Governments intend the understanding of this MOU to strengthen the North Atlantic Alliance. In so doing, the

Governments recognize the efforts of the Western European Armaments Group (WEAG) to enhance equipment collaboration by more comprehensive and systematic arrangements among the individual member nations. They, therefore, understand that in the event of a possible conflict between understandings entered into between the WEAG and the USG, and this MOU, the signatories hereto will consult with a view to amending this MOU.

The Governments will regard this MOU as being part of the arrangements, in the larger context, for co-operation between Europe and North America within the Alliance.

SECTION 1

Principles Governing Reciprocal Defense Purchasing

1.1 Both Governments intend to facilitate the mutual flow of the defense procurement for their armed services, aiming at a long term equitable balance in their exchanges, consistent with their national policies and taking into consideration the capability of their defense industrial and research and development bases.

1.2 This MOU is intended to cover areas in which, in the view of both Governments, bilateral co-operation could be achieved in research, development, production, procurement and logistic support of defense equipment. This co-operation is intended to complement the work of the Conference of National Armament Directors (CNAD), the WEAG and the Senior NATO Logisticians Conference (SNLC).

1.3 To facilitate these objectives the following principles will be observed by the Governments:

1.3.1 Both Governments will provide appropriate policy guidance and administrative procedures within their respective defense procurement organizations to implement the provisions of this MOU. Within 90 days of the effective date of this MOU, each Government will provide to the other copies of such guidance and procedures.

1.3.2 The Governments will identify and nominate for consideration by each other, items of defense equipment believed suitable to satisfy their respective requirements. The Governments will decide between them to which items of defense equipment purchases this MOU will apply and whether the items may be procured on a Government-to-Government or Government-to-Industry basis.

1.3.3 In the interests of standardization and the effective utilization of scarce resources, each Government will, to the extent practical, adopt qualified defense items that have been developed or produced in the other country.

1.3.4 The Governments will regularly discuss measures to limit any adverse effects of offsets and other regulations or policies on the defense industrial base of each country.

1.3.5 This MOU does not cover contracts for the construction, alteration or repair of public works or public facilities.

1.3.6 The implementing procedures for this MOU (Annex I) will incorporate the following:

- (i) Consistent with national laws and regulations, offers or proposals will be evaluated on the basis of non discrimination on the grounds of place of manufacture, without applying price differentials under 'Buy National' laws and regulations, and without applying the costs of import duties;

- (ii) Full consideration will be given to all qualified sources in each other's country in accordance with the policies and criteria of the relevant purchasing office. In addition, each country will give full consideration to all applications for qualification by sources in the other country;

- (iii) Offers or proposals will be required to satisfy requirements of the purchasing office including performance, quality, delivery and costs;

- (iv) Consistent with national laws and regulations provision will be made for duty-free certificates and related documentation.

1.3.7 To facilitate potential or established programs including purchases set up in implementation of this MOU, the Governments understand that subject to their laws, regulations, established policies and procedures and subject to privately owned proprietary rights, each Government will, so far as it is able, release to the other and to its agents information and technology the providing Government believes is necessary to facilitate such programs.

1.3.8 The Governments, through their appropriate representatives, will consult concerning the effective implementation of this MOU. Such consultations will be conducted on the basis of Section 2 of this MOU.

1.3.9 Arrangements and procedures will, at the request of the purchasing Government, be established concerning follow-on logistic support for items of defense equipment, purchased pursuant to this MOU. Both Governments will make their defense logistic systems and resources available for this purpose as required and mutually decided.

SECTION 2

Implementation Machinery

- 2.1 The Governments will appoint representatives to a US-UK Defense Equipment Rationalization Committee (DERC), to discuss and review progress in implementing this MOU.
- 2.2 The Under Secretary of Defense for Acquisition and Technology in conjunction with the Under Secretary of Defense for Policy in co-ordination, as appropriate with other DoD offices, will be the responsible authority in the United States of America.
- 2.3 The Chief of Defence Procurement, MoD, under the guidance of MoD Ministers and in consultation with the Head of the Defence Export Services, will be the responsible authority in the United Kingdom of Great Britain and Northern Ireland.

SECTION 3

Industrial Involvement

- 3.1 Implementation of this MOU will entail full industrial involvement. Notwithstanding the Governmental procedures to implement this MOU, it will be the basic responsibility of the industries in each country to identify and market their respective capabilities and to carry out the necessary actions to bring about industrial involvement.
- 3.2 Each Government will be responsible for calling to the attention of its relevant industries the basic understanding of this MOU, together with appropriate guidance on its implementation.
- 3.3 The Governments will arrange that their respective procurement and requirements offices are made familiar with the principles and objectives of this MOU and will, consistent with their normal practice and procedures with their country's industry, assist sources in the country of the other Government to obtain information concerning proposed purchases, necessary qualification and appropriate documentation.

SECTION 4

Security and Release of Information

- 4.1 Classified Information. Any classified information or material exchanged under the terms of this MOU will be protected in accordance with the 1961 US-UK General Security Agreement, as amended, and including the Industrial Security Annex thereto.

4.2 Unclassified Information. Each Government will take all lawful steps available to it to keep unclassified information exchanged in confidence under this MOU free from further disclosure including under any legislative provisions, unless the other Government consents to such disclosure.

4.3 To assist in providing the desired protection, each Government will mark such information furnished to the other in confidence with a legend indicating the country of origin, the conditions of release, and if unclassified the fact that the information is furnished in confidence.

4.4 Unclassified information provided by either Government to the other in confidence, and information produced by either Government pursuant to this MOU requiring confidentiality will be safeguarded in a manner that ensures its proper protection from unauthorized disclosure. Each Government will provide appropriate protection which is at least equal to the protection provided by the originating Government.

4.5 Release of Information. Technical Data Packages (TDPs) and Production Data Packages (PDPs) will not be transferred between the two countries without the prior written permission of those owning or controlling any associated proprietary rights. Each Government will ensure that any TDPs or PDPs which it may receive from the other are not used for any purpose than that for which they were provided, without the prior written approval of those owning or controlling proprietary rights, and that full protection will be given to such proprietary rights, or to any privileged, protected, or classified data and information they may contain.

4.6 The Governments will maintain full and comprehensive lists of Technical Exchange Arrangements to which both are signatories. These Arrangements will be taken into account when applications from the Government of either country including Government supported industry applications, are made for the disclosure of information relating to co-operation under the terms of the MOU.

4.7 Bearing in mind the close co-operation of the two Governments to ensure the maintenance of NATO's technological superiority, they confirm that in considering each cooperative project carried out under this MOU, they will pay specific attention to exercising control both bilaterally and within multinational bodies over the transfer to third parties of technologies and associated manufacturing processes involved in defense programs. Within such a framework each Government may authorize release of information generated solely within its territory exclusively at its own cost and which does not incorporate any information provided by the other Government. Release of controlled information, know-how or articles will require the prior written permission of the providing participant.

4.8 A security review of all co-operative programs carried out under this MOU will be conducted annually by Project Managers to ensure Government and Industry compliance with the security regulations of both Governments for the protection of classified and unclassified but sensitive technology.

SECTION 5

Duration

5.1 This MOU including Annexes I, II, III, IV, and V listed below will come into effect upon signature by the Governments and will terminate on 1 January 2005.

- I Principles Governing Implementation
- II Mutual Acceptance of Test and Evaluation
- III Reciprocal Audits of Contracts and Subcontracts
- IV Principles Governing Logistics Support of the Defense Equipment
- V Reciprocal Quality Assurance Services

5.2 If, however, either Government considers it necessary for compelling national reasons to discontinue its participation under this MOU before 1 January 2005, any such proposal will be the subject of immediate consultation with the other Government to enable the Governments fully to evaluate the consequences of such termination and, in the spirit of co-operation, to decide upon such actions as may be necessary to alleviate problems that may result from termination.

5.3 It is intended that contracts entered into as a result of the co-operation fostered by the understandings in this MOU will not be terminated solely because of the termination of this MOU.

5.4 Any difference of view regarding the interpretation or application of this MOU will be resolved by consultation between the two Governments and will not be referred to a national or international tribunal or third party for settlement.

SECTION 6

Annexes

6.1 Further Annexes to this MOU may be negotiated by the responsible officers and approved by the appropriate authorities of each Government and will be treated as an integral part thereof. In addition, Annexes II, III, IV, and V may be modified

and approved by appropriate authorities having cognizance over the subjects of the respective annexes.

The foregoing represents the understandings reached between the Government of the United States of America and the Government of the United Kingdom of Great Britain and Northern Ireland upon the matters referred to therein.

.....William J. Perry.....

For the Government of the
United States

Date: 13 December 1994

.....Malcolm Rifkind.....

For the Government of the
United Kingdom of Great
Britain and Northern Ireland

Date: 13 December 1994

ANNEX I

PRINCIPLES GOVERNING IMPLEMENTATION

SECTION 1

Introduction

This Annex sets forth the procedures by which the Governments will implement the Memorandum of Understanding on Co-operation in Research and Development, Production, Procurement and Logistic Support of Defense Equipment (hereinafter referred to as 'the MOU').

SECTION 2

Major Principles

2.1 Each Government will consider for its defense requirements qualified defense items (and associated services included in a procurement contract) developed and/or produced in the other country. In addition, the responsible purchasing agencies of each Government will seek to inform themselves of the defense items which might be available from the other country to meet specific requirements.

2.2 It will be the responsibility primarily of industry representatives in each country to obtain information concerning the other country's proposed developments and purchases and to respond to requests for proposals in accordance with the prescribed procurement procedures and regulations of the purchasing country.

2.3 Each Government will, consistent with normal practice and procedures with their own country's industry, ensure that the responsible Government authorities in each country will assist sources in the other country by responding promptly to requests for appropriate information concerning:

2.3.1 Plans and programs for production and acquisition of defense items and services.

2.3.2 Requirements for the qualification of sources.

2.3.3 Specifications, quality assurance standards and other appropriate documentation.

2.4 Full consideration will be given to all qualified industrial and/or Government sources in both the US and UK, in accordance with the policies and criteria of the respective purchasing agencies. In addition, each Government will give full

consideration to all applications for qualification by sources in the other country.

2.5 Offers will be required to satisfy requirements including performance, quality, delivery and cost. In preparing Invitations for Bids and Requests for Proposals, and in evaluating Offers, where applicable and consistent with national laws and regulations, full consideration will be given to potential NATO savings and/or increased NATO combat capability expected to result from the procurement of items that are standardized or interoperable with those of the Allies.

2.6 Consistent with national laws and regulations, offers of defense items developed and/or produced in the other country will be evaluated without applying price differentials under 'Buy National' laws and regulations and without applying the cost of import duty.

2.7 Consistent with national laws and regulations provision will be made for duty-free entry certificates and related documentation.

SECTION 3

Actions

3.1 Both Governments will review and, where considered necessary, revise policies, procedures and regulations to ensure that the principles and objectives of the MOU, which are intended to be compatible with the broad aims of NATO Rationalization, Standardization and Interoperability, are taken into account.

3.2 Recognizing that factors such as delivery date requirements, the interests of security, and the timely conduct of the contracting process must be considered, the following arrangements will be made to ensure free and full competition for the award of contracts:

3.2.1 Each Government will ensure that as a minimum the following are familiar with the principles, objectives and provisions of the MOU:

- its respective defense planning, programming, and procurement offices.
- its respective research and development offices.
- its respective agencies and industries responsible for the development and production of defense items and associated services.

3.2.2 Each Government may assist industries in its country to advise the other Government of their capabilities, and assist such industries in carrying out the supporting

actions to maximize industrial involvement in the implementation of the MOU.

3.2.3 Each Government will consider defense items and associated services offered by the Government or industry of the other country as candidates for their respective requirements. In meeting their procurement requirements, the Governments will, as far as practicable, ensure that the industries of each country are afforded adequate time to be able to participate in the production and procurement process.

3.2.4 Both Governments will use all reasonable endeavors to assist in negotiating licenses, royalties and technical information exchanges among their respective industries.

3.2.5 Both Governments acknowledge the potential benefits that can accrue from international competition and the contribution that can make to the fulfillment of the aims set out in the Introduction Section of this MOU. Each Government will ensure that those items and/or services excluded from consideration under the arrangements made as a result of this MOU, for reasons of protecting national requirements, such as the maintenance of a defense mobilization base, are limited to a small percentage of total annual defense procurement spending. Each Government will designate a central point of contact who will review, upon request, items to which mobilization base restrictions have been applied. Periodically, representatives of each Government will meet to review the policy underpinning the items and/or services excluded from consideration under the MOU arrangements with the aim of permitting the purchase of each others defense products.

SECTION 4

Procurement Procedures

4.1 To the extent practicable, each Government will publish or have published, in a generally available periodical, a notice of proposed purchases in accordance with national rules or practices. The notice will contain:

4.1.1 Subject matter of the procurement.

4.1.2 Time limits set for the submission of offers or requests to participate in the bid-invitation process.

4.1.3 Addresses to which offers or requests to participate should be sent.

4.2 The contracting authorities will provide copies of invitations to tender/solicitations for proposed purchases in

accordance with national rules or practices. Such invitations will contain the following information:

- 4.2.1 The nature and quantity of the products or services to be supplied.
 - 4.2.2 Whether the procedure is by sealed bids or negotiation.
 - 4.2.3 The criteria on which the award is to be based, such as by lowest bid price or otherwise.
 - 4.2.4 Any delivery date.
 - 4.2.5 The address and closing date for submitting bids as well as the language or languages in which they must be submitted.
 - 4.2.6 The address of the contracting authority responsible for awarding the contract and providing any appropriate information to potential suppliers.
 - 4.2.7 Any economic and/or technical requirements, financial guarantees and information required from suppliers.
 - 4.2.8 The amount and terms of any sum payable for tender/solicitation documents.
- 4.3 Any "invitations to tender"/"solicitations" will be published in adequate time to enable interested suppliers to signify their interest, and will allow adequate time for response consistent with user requirements.
- 4.4 Tenderers/offerors will be promptly notified as to the outcome of the tender/solicitation process.
- 4.5 A supplier will, on request, be provided with pertinent information concerning the reasons why he was not allowed to participate in a procurement or was not awarded a contract.
- 4.6 The Governments will maintain procedures for the examination of complaints arising in connection with any phase of the procurement process, and will exchange pertinent information on these procedures.

SECTION 5

Administration

5.1 Each Government will designate representatives for its country to the DERC which will meet as needed to review progress in implementing the MOU. The representatives will discuss development, production and procurement needs of each country and the likely area of co-operation; agree to the basis of, and keep

under review, the financial statement referred to below; and consider any other matters relevant to the MOU. The agenda will be agreed upon and made final 30 days prior to the date set for the meeting.

5.2 A financial statement ('Annual US/UK Statement') of the current purchases between the two countries will be prepared on a basis to be jointly decided. The Statements will be reviewed during the meetings referred to in 5.1 above.

ANNEX II

MUTUAL ACCEPTANCE OF TEST AND EVALUATION

Introduction

1. In furtherance of the principles governing reciprocal defense purchasing, as defined in the MOU and in accordance with the Implementing Procedures for the MOU (Annex I thereto), representatives of the DoD and MoD have engaged in discussions and presentations on Test and Evaluation (T&E) in defense procurement. The discussions were aimed at facilitating the implementation of the MOU by:

- a. Bringing about a thorough, mutual understanding of the Governments' policies, organizations and procedures for T&E.
- b. Identifying the main differences between the Governments' organizations and procedures for T&E.
- c. Determining the actions required to overcome any difficulties arising from the identified differences, in order to assure complete mutual acceptability of T&E procedures.

2. The purpose of this Annex, is to record the concurrence reached by the Governments concerning the mutual acceptability of their respective T&E procedures for those systems that are developed in one country and are candidates for procurement by the other. Two categories of defense systems are considered:

- a. Those still under development.
- b. Those for which development is complete.

Points of Concurrence

3. The objective is to avoid redundant testing. Neither Government will duplicate tests where acceptable data is available from the other Government's official test program.

4. Existing T&E organizations and procedures of both Governments are adequate to satisfy the purposes of the MOU. Differences are not such as to justify changes being made to the present procedures of either Government.

5. To achieve a more widespread understanding of the Governments' T&E organizations and procedures in the DoD, in the MoD, and in the Industries of both countries, the Governments will produce guidance information necessary to meet the purpose of this Annex, including: ..

- a. The relationship between their respective T&E organization and procedures.
 - b. A DoD/MoD communications matrix for initial contacts.
6. The focal point for all T&E aspects of procurement relating to development testing will be the US Program Manager or the UK Project Manager for the equipment being offered. For operational testing aspects, it will be the applicable US Services independent operational test agency and in the UK, the Project Manger.

Mutual Acceptance Procedures

7. All proposals for consideration of equipment of one country for procurement by the other will require a review of T&E data reflecting test conditions, test results and success criteria on a case-by-case basis. The following procedures will therefore be observed in all procurement considerations.

- a. To facilitate the exchange of T&E data, a common documentation format will be adopted. This format will be similar to the US Navy's Test and Evaluation Master Plan (TEMP) as outlined in OPNAV Instruction 3960.10.

- b. For systems under development, the offering Government will invite participation by the other early in the T&E program. Should the other Government not choose to participate in the testing, the offering Government, subject to its laws, established policies, procedures and regulations, and subject to privately owned proprietary rights, will arrange for the release to the other of information necessary for the purpose of such T&E.

- c. For systems for which development is complete, the offering Government will ensure, subject to its laws, established policies, procedures and regulations, and subject to privately owned proprietary rights, that all pertinent T&E data is made available to the other.

- d. Should one Government adjudge the T&E which has been completed or planned by the other to be inadequate for its procurement procedures, the Governments will jointly determine any additional testing to be carried out. Such additional testing may be conducted by either country as jointly decided. In addition, before such additional testing commences, concurrence will be reached by the Governments regarding payment of costs, allocation of resources, scheduling and the evaluation criteria which will apply.

e. When either Government releases T&E data to the other, it is understood that, in the absence of any specific understanding to the contrary, such data is made available in confidence to the receiving Government for the purpose of information and evaluation within such Government and for no other use. Such data will be marked and handled in accordance with Section 4 of the MOU.

8. In any case where concurrence cannot be reached between the focal points or their Service superiors concerning the acceptability of T&E, or when it is felt that adequate data and information on T&E have not been provided, the matter will be referred to the appropriate higher authority. For the DoD this will be the Director Defense Test and Evaluation and for the MoD this will be the appropriate Systems Controller.

ANNEX III

RECIPROCAL AUDITS OF CONTRACTS AND SUBCONTRACTS

I. INTRODUCTION

This annex sets forth the provisions and procedures under which the Governments recognizing the mutual benefit, will provide one another with contract audit services upon request in support of defense contracts, subcontracts, and Foreign Military Sales (FMS) Letters of Offer and Acceptance contemplated or executed under the MOU.

II. GENERAL PRINCIPLES

The objective of this annex is to provide effective and efficient audit services to the cognizant contracting officers of the Governments. Either Government may request audit services from the other Government. Each Government will perform the audits requested by the other Government or otherwise required by this annex, subject to the relevant laws of either Government. By arrangement between the Governments, the requesting Government may elect to perform an audit in circumstances where the other Government is unable to meet the request.

Contract audit reports will be advisory. The purchasing Government will retain authority and responsibility for negotiating acceptable prices and contract settlements with contractors. Purchases by HMG under the FMS Program will be handled under the USG FMS procedures in existence at the time of acceptance of the FMS agreement.

There are many similarities between the USG Contract Cost Principles and Procedures set forth in the Federal Acquisition Regulation (FAR) Part 31 and the "Accounting Conventions for Non-Competitive Government Contracts" which are applicable in the UK. Nevertheless, when performing an audit for the USG, HMG will identify all costs which are expressly unallowable under the versions of the FAR Part 31 and Defense FAR Supplement (DFARS) Part 231 applicable to the proposal, contract, or other matter being audited. HMG will also apply the FAR Part 31 and DFARS Part 231 general principles of allocability, allowability, and reasonableness. Aside from UK companies that qualify for exemption from FAR Part 30 and DFARS Part 230 cost accounting standards by reason of filing an acceptable Disclosure Statement, UK companies will be audited for compliance with applicable FAR Part 30 and DFARS Part 230 cost accounting standards. Except as provided above, generally accepted HMG audit methods and practices will be used by the HMG in performing audits for the USG.

HMG will accept audits performed by the USG which use FAR Part 31 and DFARS Part 231 cost principles and FAR Part 30 and DFARS Part 230 cost accounting standards, subject to review in the event of changes in the cost principles or cost accounting standards.

Neither Government will duplicate or review the work of the other except as regards the provision of feedback to the performing Government on the utility and clarity of audit reports. The Government will hold periodic discussions to evaluate the operational effectiveness of the reciprocal audit arrangement. Each Government will evaluate its compliance with this audit annex by its own appropriate review and oversight organization at least once every three years. A copy of the results of each such review will be provided to the other Government.

Solicitations, contracts and subcontracts will contain suitable provisions to enable the Governments to act for and on behalf of one another under this annex and will authorize access to contractors' facilities and records as necessary.

Nothing in this annex is to be construed to limit a purchasing Government's rights or remedies, including access to contractors' records, in accordance with the terms of the contract or subcontract as required by the law or policy of the purchasing Government.

III. SCOPE OF AUDIT ANNEX

For purposes of this annex, contract audit services will include the following types of audits:

Forward Pricing Audits: Review of proposals submitted in contemplation of a contract award or a contract modification, or in relation to negotiating a price of an unpriced contract based on estimated costs, to determine the allocability, allowability, and reasonableness of each proposed cost element.

Accounting System Audits: Review of contractor accounting records, procedures, and systems to determine their accuracy, currency, completeness, and compliance with contract requirements.

Estimating System Audit: Evaluation of cost estimating systems.

Post Award Audits: Verification after contract award of the currency, accuracy, and completeness of cost or pricing data submitted to the purchasing Government as of the completion of negotiations. Post award audits will be performed automatically; without a request, by both Governments

whenever required under the purchasing Government's policies and on a sample basis for non-mandatory cases. In addition, additional post award audits can be requested by either Government. Post award audits will be performed under the provisions of this annex provided that the requesting Government has made available to the performing Government all necessary data regarding the price negotiation and agreement.

Reimbursement Vouchers Audits: Verification of payment vouchers and claims for interim payments submitted under cost reimbursement contracts or other contracts with cost reimbursement features (e.g., material reimbursement), recommending cost disallowances when appropriate.

Audits of Disclosed Accounting Practices: Verification of contractor compliance with disclosed accounting practices and contractual accounting requirements.

Overhead Cost Audits: Evaluation of overhead cost records prior to overhead settlements.

Termination Audits: Evaluation of proposed termination costs and contract cost records prior to termination settlements.

Final Pricing Audits: Review and verification of actual costs incurred in the performance of cost reimbursement and fixed price incentive contracts for purposes of establishing the final cost or price.

Post Costing Audits: For relevant contracts placed by the UK, comparison and analysis, after contract completion, of out-turn, i.e., incurred, costs as against estimated costs used as a basis for pricing.

Other: Audit services considered necessary and requested by contracting country.

Both Governments will use, when appropriate, audit work already undertaken by the performing Government for its own purposes in order to satisfy the requirements of the requesting Government.

Requests for audit services which fall below the current value threshold adopted by the requesting Government will only be accepted by the performing Government if adequate written justification of the need for the audit is provided.

IV. PROCEDURES

Requests for contract audit services in the UK will be sent by telephonic facsimile followed by a written request with a copy of the contractor's proposal (if applicable) by air mail to:

Principal Director, Pricing and Quality Services
Ministry of Defence (Procurement Executive)
Room 230
St George's Court
14 New Oxford Street
London WC1A 1EJ
England

Telephone: 071-305-4081
Facsimile: 071-305-4099

Requests for contract audit services in the US will be sent by telephonic facsimile, followed by written request with a copy of the proposal (if applicable) sent by air mail, to:

Defense Contract Management Area Operations, New York
DoD Central Control Point
201 Varick St.
New York, NY 10014-4811
USA

Facsimile: (212) 807-3343

Requests for audits will specify:

- i. The type of audit services needed.
- ii. The contractor's name and address.
- iii. The subcontractor's name and address (if applicable).
- iv. The proposal reference and value (if applicable).
- v. Audit coverage required including any items requiring special review.
- vi. The calendar date (not the number days after receipt of audit request) that the audit is needed.
- vii. A contact name, telephone, and facsimile number.

Requests will be acknowledged, via telephonic facsimile, by the performing Government and a point of contact, telephone number, and facsimile number will be provided.

Each Government will establish the following procedures:

i. Every audit report will identify the senior manager responsible for the audit as a liaison person and his or her telephone number. This senior manager will assist in obtaining clarifications of audit requests or audit reports whenever necessary. The senior manager will also assist in resolving problems with the timeliness, content, or quality of audit reports.

ii. When difficulties cannot be resolved between the requesting officer and the identified senior manager of the performing Government, the issue will be escalated to successive levels of management.

iii. Each Government will appoint a central liaison officer for the purpose of addressing matters of general audit policy and procedure.

Each Government will provide audit reports in a timely manner. Audit reports submitted in accordance with the requested due dates, are timely. While the particular features of each audit will influence the time needed to complete the audit, audits of forward pricing proposals are anticipated to take, on average, 45 days from the date of receipt of the audit request to the issuance of the audit report, provided that a contractor proposal acceptable for audit is also available when the audit request is received.

If the due date specified by the requesting Government cannot be met, the performing Government will contact the point of contact identified in the audit request to explain the reasons for the delay. If the failure to meet the requested due date is caused by external factors, not within the control of the Government performing the audit (such as not obtaining necessary cost data from a contractor), the purchasing Government will attempt to assist in resolving the problem and grant reasonable extensions as appropriate. If the inability to meet the requested due date is caused by action or inaction of the performing Government, the issue will be escalated to successive levels of management and the audit liaison person.

The Governments will provide each other with access to all available information concerning contractor cost estimating systems and disclosed accounting practices when needed to support contract negotiations or enforcement. Contracts requiring the disclosure of accounting practices will normally authorize contractors to file such disclosures with their own Governments. In the US, the files will be maintained by the office administering the contract. In the UK, the files will be maintained by the audit agency section responsible for auditing the contractor concerned.

In order to facilitate periodic appraisal of this annex, both Governments consent to maintain a list of all audits

performed for the other, identifying the specific office that requested the audit.

V. CONTENT OF AUDIT REPORTS

All audit reports will describe the type, scope, depth of the evaluation performed, and a point of contact with a telephone number. The audit reports will describe what was reviewed or evaluated, the methodology used to perform the review, findings of the review, recommendations of the auditor, and the basis for the recommendations. The audit report will address any areas that were specifically requested for review. Each audit report will state that the proposal was audited for unallowable costs and identify any unallowable costs. The audit report should identify the extent to which issues raised by the auditor were discussed with the contractor. Supporting evaluations by technical and other specialists will be included in the reports as appropriate. In the case of audits performed for the US by the UK, normal practice will involve both the accountancy and cost engineering personnel of the UK audit agency. The purchasing Government may request additional clarifications or supporting data, if necessary, and will have the final authority to determine when the information provided is adequate for its purposes.

For forward pricing audits, the reports will, for each element of proposed cost, identify the offeror's proposed cost, the basis for the proposed cost, how the auditor evaluated it, any recommended exceptions (questioned costs), and rationale supporting the recommended exceptions (questioned costs). The information supplied in the audit report should be sufficiently detailed to permit the purchasing Government to develop and justify its negotiation position.

VI. PROTECTION OF INFORMATION

Every audit report will contain criteria and qualifications regarding the release of the report which must be observed by the requesting Government. No privileged or confidential, commercial or financial information contained in a report will be disclosed to third parties other than the Governments without the express consent of the authorized officers of both Governments and the audited contractor. However, the contracting officer will normally release a summary of the results of audits of subcontractors to higher tier contractors for negotiation purposes. This summary will exclude material which is commercially confidential to the audited subcontractor. Data obtained through the implementation of this annex will receive the same protection against unauthorized disclosure as it would normally receive under the laws and rules of the Government which possesses it.

VII. CHARGES

Services will be provided under this annex without charge provided that a joint review of the services, which will be performed at not less than three-year intervals, indicates that general reciprocity is being maintained. After such joint review either Government may propose the introduction of charges.

ANNEX IV

CONCERNING THE PRINCIPLES GOVERNING LOGISTIC SUPPORT OF THE DEFENSE EQUIPMENT

In implementing Section I, paragraph 1.2. of the MOU, the Governments will be governed by the following:

1. When developing or procuring equipment, the Governments will decide upon the basis for joint follow-on logistic support in areas such as configuration control, interchangeability of spare parts/components, maintenance, conversion, storage and spare parts provisioning, etc.
2. Arrangements and procedures will be established concerning follow-on logistics support and other forms of logistic co-operation, e.g., joint utilization of facilities.
3. In the contracting procedure for logistic support, paragraph 1.3.9 of Section I of the MOU will apply.
4. The Governments will issue directives and guidelines to their respective armament and logistics agencies to achieve their described goals of the MOU.

ANNEX V

RECIPROCAL QUALITY ASSURANCE SERVICES

1. Scope

This Annex sets forth the provisions under which the Governments will provide one another with quality assurance services in support of Defense contracts and sub-contracts contemplated or executed under the MOU.

2. Application.

Quality assurance services will be provided under this Annex free of charge, for all contracts, sub-contracts and FMS Letters of Offer and Acceptance entered into on or after the date of the last signature on the MOU, provided that a joint review of the services, which will be performed at not less than three-year intervals, indicates that general reciprocity is being maintained. After such joint review either Government may propose the introduction of charges.

3 Quality assurance services will be provided free of charge in accordance with the procedures of STANAG 4107, not limited by the reservations of the US and UK authorities presently entered in the STANAG.

4 Designated Focal Points

a. Requests for Government Quality Assurance (GQA) in UK will be directed to:

Principal Director, Pricing and Quality Services
Ministry of Defence (Procurement Executive)
Room 230
St Georges Court
14 New Oxford Street
London WC1A 1EJ

Telephone: 071-305-4081
Facsimile: 071-305-4099

b Requests for Government Quality Assurance in US will be directed to:

Department of Defense Central Control Point
DCMAO New York
201 Varrick Street
New York, NY 10014-4811

5. Additional Focal Points

The requests for GQA will be on the forms described in Annex A to STANAG 4107, with the following information:

- a. In Block 7, the type of equipment which the material or service pertains to, and the Armed Force (Army, Navy, or Air Force) that employs the equipment.
- b. In Block 8, the desired services, if less than comprehensive support is needed.
- c. In Block 10, address for correspondence if different from Focal Point.

6. Protection of Information.

Data obtained through implementation of this Annex will be protected in accordance with Section 4 of the MOU.